



AR35

1971
ANNUAL
REPORT

C. A. Pitts Engineering Construction Limited



Lower Notch Power Development

The Cover

Ontario Hydro's Lower Notch hydro-electric power dam on the Montreal River near Cobalt, Ontario.

This project was completed by the Pitts-McNamara-Atlas joint venture, with Pitts sponsoring, in October, 1971, at a value of approximately \$35,000,000.

In addition to the intake structure and power house in the foreground, this project encompassed a 450-foot high earth fill dam across the Montreal River.

The automatic Lower Notch hydro-electric station will supply 250,000 kilowatts to Ontario's grid system to serve peak demand power requirements.

Annual Meeting

The Annual and General Meeting of Shareholders will be held in the Library of the Royal York Hotel, Toronto, Ontario, on Monday, April 10th, 1972, at 3:30 P.M. Each shareholder will be mailed a Notice of the meeting, Information Circular, Proxy Statement and Annual Report prior to the meeting.

The Pitts' Group of Engineering Construction Companies

C. A. Pitts Engineering Construction Limited

C. A. Pitts General Contractor Limited

Pitts Quebec Limited

Construction Improvements Limited

C. A. Pitts Construction Eastern Limited

Drake Construction Co. Ltd.

Harco Construction Limited

Cliffside Pipelayers Limited

Princliffe Realty Limited



C. A. Pitts Engineering Construction Limited

Established 1942

Directors

Allan L. Beattie, Q.C.
J. Corti Boland, Q.C.
William C. Cole, P.Eng.
Sydney C. Cooper, P.Eng.
James D. Jarrell, B.Comm.
Donald J. McDonald, B.Comm.

Officers

| | |
|----------------------------|-------------------------------------|
| Sydney C. Cooper, P.Eng. | President and General Manager |
| William C. Cole, P.Eng. | Senior Vice-President |
| James D. Jarrell, B.Comm. | Vice-President and Treasurer |
| R. Bruce Magahay, P.Eng. | Vice-President |
| Howard A. Bradley, P.Eng. | Vice-President |
| J. Corti Boland, Q.C. | Vice-President and Secretary |
| Wallace A. Barrie, P.Eng. | Assistant Vice-President |
| Norman A. Harrison, C.G.A. | Assistant Treasurer and Comptroller |
| Stanley J. Viger | Assistant Treasurer |

Registrars and Transfer Agents

| | |
|---------------------------------|---|
| National Trust Company, Limited | Montreal, Toronto, Winnipeg, Calgary and Vancouver |
| Nova Scotia Trust Company | Halifax, N.S. |

Auditors

| | |
|---------------|------------------|
| Ernst & Ernst | Toronto, Ontario |
|---------------|------------------|

Bankers

| | |
|----------------------|-----------|
| Royal Bank of Canada | Pitts |
| Bank of Nova Scotia | Cliffside |

General Counsel

| | |
|--------------------------|------------------|
| Osler, Hoskin & Harcourt | Toronto, Ontario |
|--------------------------|------------------|

Exchange Listing

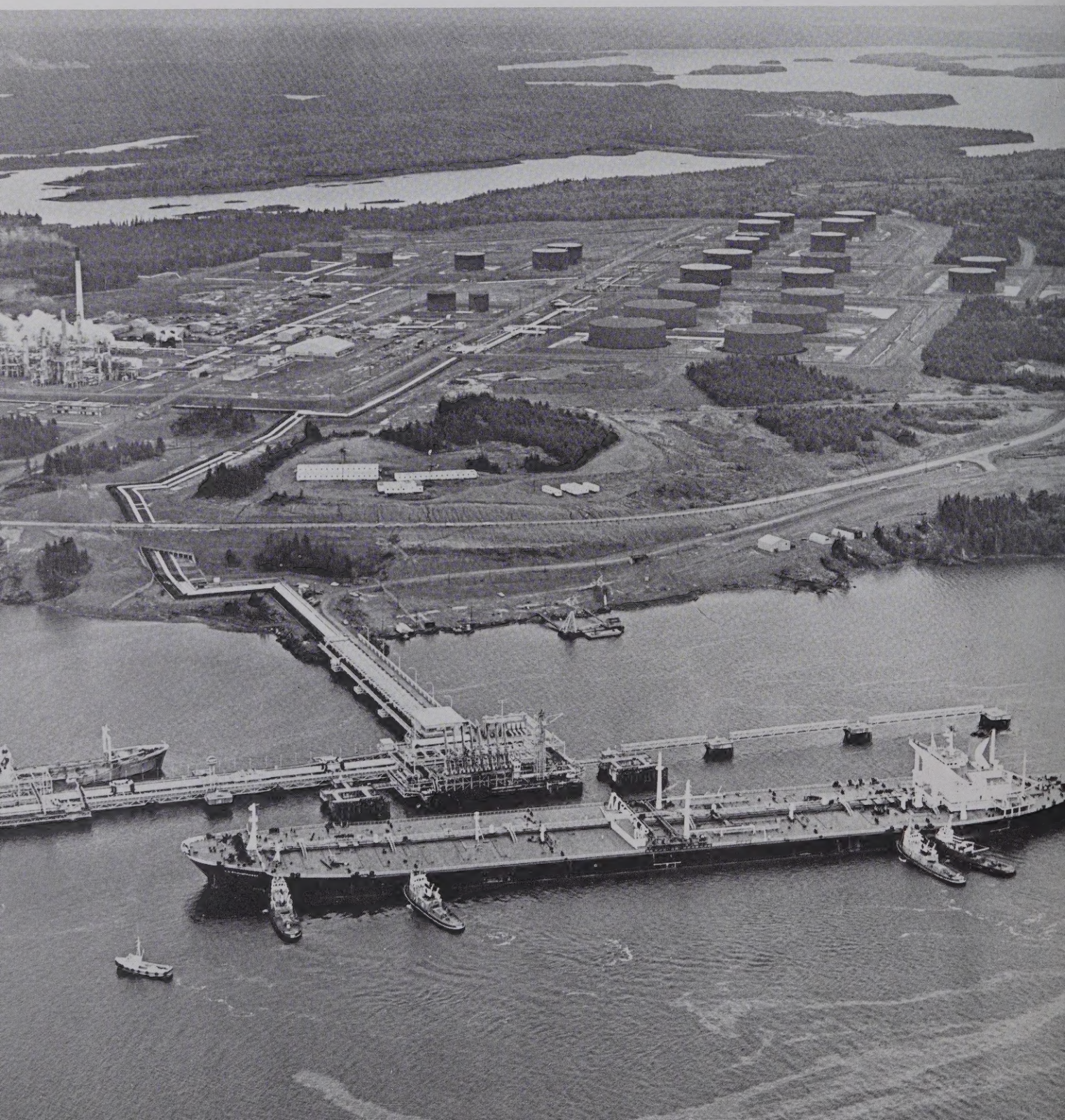
The Toronto Stock Exchange

Head Offices

| | |
|----------------|------------------------------------|
| Pitts: Ontario | 30 Commercial Road, Toronto |
| Quebec | 4480 Cote de Liesse Road, Montreal |
| Cliffside: | 3660 Midland Avenue, Toronto |

Supertanker Wharf, Point Tupper, Nova Scotia

This wharf was completed by your Company in August, 1971. The largest tanker ever to cross the Atlantic, the G. Shaughnessy, a 253,000 ton tanker, is shown off-loading 1.8 million barrels of crude oil from the Middle East oil fields.

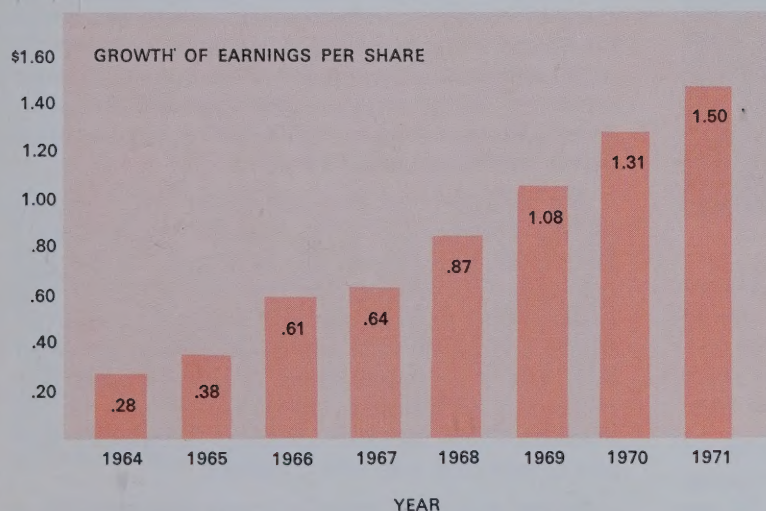


Financial Highlights

| | 1971 | 1970 | 1969 | 1968 | 1967 |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenue..... | \$53,294,147 | \$49,867,192 | \$46,780,814 | \$33,755,100 | \$28,706,532 |
| Depreciation..... | 1,533,170 | 1,162,683 | 799,687 | 698,676 | 624,996 |
| Provision for Taxes..... | 3,123,594 | 2,818,777 | 2,301,000 | 1,873,000 | 1,482,500 |
| Net Income..... | 3,000,558 | 2,509,513 | 2,021,831 | 1,635,630 | 1,205,939 |
| Earnings per Share..... | 1.50 | 1.31* | 1.08 | .87 | .64 |
| Extraordinary Item Earnings per Share..... | | .03** | .12 | | |
| Working Capital..... | 5,798,095 | 6,444,642 | 4,166,195 | 2,798,369 | 2,191,192 |

*Weighted Average

**Reduction of Earnings



*Pitts' Growth
1964 to 1971*

Report to Shareholders



On behalf of the board of directors, I am pleased to present our annual report for the fiscal period ended December 31st, 1971, a record year for revenue and net income and one in which per share earnings increased for the eighth consecutive year.

As can be seen from the financial highlights on the previous page, revenue of \$53,294,147 yielded a net income after tax of \$3,000,558, or \$1.50 per share, compared with 1970 revenue of \$49,867,192,

with net income after tax of \$2,509,513, or \$1.31 per share. This represents an increase of 14½% in earnings per share. At year-end your Company had a very strong working capital and cash position, placing it in an advantageous position for the large volume of work coming to the market in 1972.

Year in Review

The past year was a successful one for your Company, yet it brought with it several disappointments for the heavy construction industry as a whole. Although the tight money period ended and expansion of the economy was encouraged, it became obvious that plans and tender documents, particularly in the governmental sector, were not available for quick construction starts. As a result, work did not come to the market as expected. Nevertheless, your Company achieved record revenue and profit, an indication of our flexibility to adjust to changing patterns in the industry. By year-end it was clear that the anticipated work volume that lagged in 1971 was now becoming available for tender.

I am pleased to report that during 1971 five major projects were completed of which three were well ahead of schedule. The large Macdonald-Cartier Freeway and Highway 27 interchange in the Toronto area, having an approximate value of \$21,000,000, was completed and open to traffic one full year ahead of schedule. Another section of the Macdonald-Cartier Freeway reconstruction at Kennedy Road was completed two months ahead of schedule. A contract obtained from the Corporation of the City of Hamilton in March, 1971, for the Claremont Hill Mountain Access Road, valued at \$5,300,000, was completed eleven months ahead of schedule.

The \$35,000,000 Pitts-sponsored joint venture for the construction of the Lower Notch Hydro-Electric development project for Ontario Hydro was completed on schedule in the fall of 1971. The underground powerhouse and intake structure for Brinco's Churchill Falls vast development, on which Pitts was a non-sponsoring participant, was also completed on schedule. Our extensive work on the Welland Canal diversion program progressed well and at year-end was 74% complete.

During mid-1971 your Company was awarded a \$10,000,000 contract for the construction of the

Macdonald-Cartier Freeway and Highway 2A interchange, east of Toronto. At year-end this project was about 57% complete. Smaller contracts, totalling approximately \$1,000,000, were also obtained on this highway system during the year. One job of note was the construction of an experimental noise barrier to minimize expressway noise affecting residential areas. Two contracts for separate phases of the new Ottawa to Hull bridge were also obtained late in the year.

The Company's marine and dredging fleet completed work at Ontario Hydro's Lake Erie Nanticoke Generating plant and at the Point Tupper, Nova Scotia, supertanker wharf. Dredging was undertaken and completed at the Bruce Nuclear Station on Lake Huron and a portion of the plant then moved to work on a wharf and dredging contract at Cornwall, Ontario, which, at year-end, was 83% complete. The remainder of our marine plant was engaged on the piers required for the Ottawa-Hull bridge.

Cliffside Pipelayers Limited, a wholly-owned subsidiary active in all types of underground and surface utility work in the golden horseshoe area of Southern Ontario, enjoyed a record year in revenue and profit. Operations at Goose Bay, Labrador, were sold due to a slackening off in business volume in that area. Expansion and renovations to our head office were completed and, for the first time in the Company's history, all administrative and executive offices are now under one roof.

Year ahead

As mentioned earlier, all indications point to a substantial increase in civil works available for tender for this coming year. In the three-month period prior to March 1st, 1972, your Company obtained in excess of \$12,000,000 of new work. This included a \$5,000,000 contract for roadwork in Corner Brook, Newfoundland, and a \$4,000,000 Pitts-sponsored joint venture with Comstock International Ltd. for a civil-electrical-mechanical installation at the Nanticoke Lake Erie Generating Station. Governmental agencies have approved new starts for major hydro-electric projects, harbour developments and pipelines and all signs indicate a year of good potential both for Pitts and Cliffside.

Acquisitions

Early in the year, your Company acquired all the

assets of a commercial quarry in the centre of the Niagara Peninsula, now known as Lincoln Quarries. Although this operation is not large at this time, it is felt that it has growth potential and will assist the Company's efforts for construction contracts in this area.

Personnel

In keeping with our policy of a strong youthful management team, the following five promotions were made during the year: Mr. W. C. Cole, P.Eng. to Senior Vice-President; Mr. H. A. Bradley, P.Eng. to Vice-President; Mr. W. A. Barrie, P.Eng. to Assistant Vice-President; Mr. A. R. Drummond, P.Eng. to Chief Engineer and Mr. N. A. Harrison, C.G.A. to Assistant Treasurer and Comptroller.

We are pleased to welcome Mr. A. R. McDonald, P.Eng., as Senior Project Engineer. Mr. W. M. Bate-man, P.Eng., resigned as Senior Vice-President and Director late in the year to become President of an Ontario cement manufacturing company.

Engineering construction is a service industry and, therefore, our key to success lies with our employees at all levels. Their loyalty, diligence and hard work has been a key factor in your Company's progress. On behalf of the board of directors, I express our sincere appreciation for their efforts. With their continued support and team spirit, I am confident we will achieve our future goals.

In closing

We are proud, as a Canadian company providing employment in peak periods for 1,900 Canadians throughout Eastern Canada, to play a significant role in the development of our country and would ask for the continued support of our shareholders.

On behalf of the Board of Directors



S. C. Cooper, P.Eng.,
President and General Manager

March 1, 1972

*Canada's Largest Highway Interchange
Macdonald-Cartier Freeway and Highway No. 27
Completed eleven months ahead of schedule*

November 27th, 1970



The Macdonald-Cartier Freeway and Highway 27, Toronto, involved 38 miles of single-lane concrete pavement and the construction of 29 bridges over a working area of almost 400 acres. These pictures illustrate the Company's exceptional progress on this contract.

November 23rd, 1971





C. A. Pitts Engineering Construction Limited
and subsidiaries

Consolidated Balance Sheet

ASSETS

| | DECEMBER 31 | |
|---|----------------------|----------------------|
| | 1971 | 1970 |
| CURRENT ASSETS | | |
| Cash and term deposits..... | \$ 5,647,617 | \$ 4,565,661 |
| Marketable securities – Note 3..... | 600,065 | 600,065 |
| Accounts receivable..... | 6,805,508 | 5,468,957 |
| Advances to directors..... | 3,000 | 7,000 |
| Investment in joint ventures – Note 4..... | 4,678,727 | 5,041,589 |
| Unbilled contract costs – Note 6..... | 91,779 | 345,099 |
| Prepaid income taxes – Note 7..... | 631,000 | 527,000 |
| TOTAL CURRENT ASSETS | 18,457,696 | 16,555,371 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land, buildings, marine and construction equipment – at cost – Note 5 | 15,170,337 | 11,720,075 |
| Less allowances for depreciation..... | 6,663,173 | 5,749,377 |
| | 8,507,164 | 5,970,698 |
| EXCESS COST OF NET ASSETS OF SUBSIDIARIES..... | 268,838 | 288,351 |
| | <u>\$ 27,233,698</u> | <u>\$ 22,814,420</u> |


LIABILITIES

| | DECEMBER 31 | |
|--|-----------------------|-----------------------|
| | 1971 | 1970 |
| CURRENT LIABILITIES | | |
| Accounts payable..... | \$ 6,601,546 | \$ 3,504,341 |
| Deferred contract revenue – Note 6..... | 4,048,779 | 5,091,504 |
| Income taxes – Note 7..... | 2,009,276 | 1,514,884 |
| TOTAL CURRENT LIABILITIES | 12,659,601 | 10,110,729 |
| DEFERRED INCOME TAXES – Note 7..... | 2,386,294 | 1,866,135 |
| MORTGAGES PAYABLE – Less current maturities..... | 59,247 | 279,344 |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL – Notes 8 and 9 | | |
| Common Shares – outstanding, 1971, 1,525,800..... | 1,482,886 | 1,350,334 |
| Class 'B' Shares – outstanding, 1971, 470,000..... | 496 | 707 |
| | 1,483,382 | 1,351,041 |
| EARNED SURPLUS..... | 10,645,174 | 9,207,171 |
| TOTAL SHAREHOLDERS' EQUITY | 12,128,556 | 10,558,212 |
| | \$ 27,233,698 | \$ 22,814,420 |

The accompanying notes are an integral part of this financial statement.

Approved on behalf of the Board


Director


Director



C. A. Pitts Engineering Construction Limited
and subsidiaries

Statement of Consolidated Income

| | YEAR ENDED DECEMBER 31 | |
|--|------------------------|---------------|
| | 1971 | 1970 |
| Contract revenue..... | \$ 53,294,147 | \$ 49,867,192 |
| Contract costs..... | 43,697,370 | 41,983,300 |
| | 9,596,777 | 7,883,892 |
| Expenses: | | |
| Depreciation of buildings and equipment..... | 1,533,170 | 1,162,683 |
| Equipment overhead..... | 548,254 | 444,643 |
| Administrative..... | 1,550,037 | 1,096,641 |
| | 3,631,461 | 2,703,967 |
| | 5,965,316 | 5,179,925 |
| Other income: | | |
| Interest..... | 113,781 | 98,711 |
| Miscellaneous..... | 45,055 | 49,654 |
| | 158,836 | 148,365 |
| INCOME BEFORE INCOME TAXES | 6,124,152 | 5,328,290 |
| Income taxes – Note 7 | | |
| Currently payable..... | 2,347,994 | 2,633,177 |
| Deferred..... | 775,600 | 185,600 |
| | 3,123,594 | 2,818,777 |
| INCOME BEFORE EXTRAORDINARY ITEM | 3,000,558 | 2,509,513 |
| Per share Note 8 | 1.50 | 1.31 |
| EXTRAORDINARY ITEM | | |
| Capital loss on securities..... | | 62,252 |
| Per share Note 8 | | .03 |
| NET INCOME | \$ 3,000,558 | \$ 2,447,261 |
| Per share Note 8 | 1.50 | 1.28 |

The accompanying notes are an integral part of this financial statement.

Statement of Consolidated Earned Surplus

| | YEAR ENDED DECEMBER 31 | |
|--|------------------------|---------------------|
| | 1971 | 1970 |
| Earned surplus at beginning of the year, | \$ 9,207,171 | \$ 7,731,953 |
| Net income for the year, | 3,000,558 | 2,447,261 |
| | <u>12,207,729</u> | <u>10,179,214</u> |
| Deductions: | | |
| Dividends paid: | | |
| Common Shares, | 380,225 | 291,051 |
| Class 'B' Shares, | 2,350 | 3,350 |
| Contingent payment due on purchase of subsidiary – Note 2, | 1,179,980 | 598,642 |
| Income tax adjustment for prior years, | | 79,000 |
| | <u>1,562,555</u> | <u>972,043</u> |
| EARNED SURPLUS AT END OF THE YEAR | <u>\$ 10,645,174</u> | <u>\$ 9,207,171</u> |

Statement of Source and Application of Consolidated Funds

| | YEAR ENDED DECEMBER 31 | |
|--|------------------------|---------------------|
| | 1971 | 1970 |
| SOURCE OF FUNDS | | |
| Net income for the year, | \$ 3,000,558 | \$ 2,447,261 |
| Provision for depreciation, | 1,533,170 | 1,162,683 |
| Increase in deferred income taxes, | 520,159 | 301,835 |
| TOTAL FROM OPERATIONS | <u>5,053,887</u> | <u>3,911,779</u> |
| Sale of property, plant and equipment, | 401,378 | 135,396 |
| Increase in issued share capital, | 132,341 | 1,009,641 |
| Decrease (increase) in working capital, | 646,547 | (2,278,447) |
| | <u>\$ 6,234,153</u> | <u>\$ 2,778,369</u> |
| APPLICATION OF FUNDS | | |
| Cash dividends, | \$ 382,575 | \$ 294,401 |
| Purchase of property, plant and equipment, | 4,471,014 | 1,592,139 |
| Decrease (increase) in mortgages payable, | 220,097 | (38,356) |
| Changes in cost of subsidiaries, | (19,513) | 252,543 |
| Contingent payment due on purchase of subsidiary – Note 2, | 1,179,980 | 598,642 |
| Income tax adjustment for prior years, | | 79,000 |
| | <u>\$ 6,234,153</u> | <u>\$ 2,778,369</u> |

The accompanying notes are an integral part of this financial statement.



C. A. Pitts Engineering Construction Limited and subsidiaries

Notes to Consolidated Financial Statement

Note 1 Principles of Consolidation

The following wholly owned subsidiary companies, being all the subsidiaries of the Company, have been consolidated:

C. A. Pitts General Contractor Limited
C. A. Pitts Construction Eastern Limited
Drake Construction Co. Ltd.
Pitts Quebec Limited
Cliffside Pipelayers Limited
Harco Construction Limited
Construction Improvements Limited
Princliffe Realty Limited

Note 2 Cliffside Pipelayers Limited

Under the terms of the Purchase Agreement for the shares of this company, the payment for 1971 is \$1,179,980. This amount is payable prior to April 15th, 1972. A final amount may be payable with respect to the 1972 operations.

Note 3 Marketable Securities

| Description | Cost | Approximate Market December 31 1971 |
|--|------------|--|
| 75,000 Common Shares of Standard Paving Limited..... | \$ 600,065 | \$ 796,875 |

Note 4 Investment in Joint Ventures

This is the amount of capital advances adjusted by the Company's share of earnings or losses to date.

Note 5 Property, Plant and Equipment

| | December 31 | |
|---|---------------------|---------------------|
| | 1971 | 1970 |
| Land..... | \$ 935,620 | \$ 505,579 |
| Buildings..... | 930,313 | 448,319 |
| Marine and Construction Equipment..... | 13,304,404 | 10,766,177 |
| | <u>\$15,170,337</u> | <u>\$11,720,075</u> |

Amounts stated for equipment do not include the Company's share of equipment owned by Joint Ventures.

Note 6 Basis of Accounting for Income

Income from contracts is recorded on the basis of percentage complete. Under this method the percentage of the estimated final income is calculated in relation to the progress of the project. All losses are recorded when known and claims are included as income only when received.

Note 7 Income Taxes

Corporation taxes have been provided on the income shown in the financial statement. Taxable income is determined on a different basis and therefore gives rise to both deferred income tax and pre-paid income tax. Generally, deferred income tax is a result of increased capital cost allowance claimed for tax purposes.

Note 8 Share Capital

200,000 Class 'B' shares were converted into 200,000 Common shares in May of 1971. Class 'B' shares are convertible, share for share into common shares.

| | December 31 | |
|------------------|-------------|-----------|
| | 1971 | 1970 |
| COMMON | | |
| Authorized..... | 4,030,000 | 3,830,000 |
| Outstanding..... | 1,525,800 | 1,302,900 |
| CLASS 'A' | | |
| Authorized..... | 300,000 | 300,000 |
| Outstanding..... | — | — |
| CLASS 'B' | | |
| Authorized..... | 470,000 | 670,000 |
| Outstanding..... | 470,000 | 670,000 |

Note 9 Employee Stock Options on Common Shares

| | December 31 | |
|---|-------------|----------|
| | 1971 | 1970 |
| Options Outstanding.. | 90,100 | 78,000 |
| Options Granted..... | 12,500 | 14,000 |
| | 102,600 | 92,000 |
| Options Cancelled.... | 10,400 | |
| Options Exercised.... | 22,900 | 1,900 |
| Options Outstanding.. | 69,300 | 90,100 |
| The proceeds of options exercised increased share capital by..... | \$ 132,341 | \$ 9,641 |

Note 10 Remuneration of Directors and Senior Officers

| | December 31 | |
|--|-------------|------------|
| | 1971 | 1970 |
| Total remuneration of Directors and Senior Officers..... | \$ 261,900 | \$ 243,336 |

Auditors' Report

To the Shareholders, C. A. Pitts Engineering Construction Limited

We have examined the consolidated financial statement of C. A. Pitts Engineering Construction Limited and its subsidiaries for the year ended December 31, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statement for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, earned surplus and source and application of

funds present fairly the consolidated financial position of C. A. Pitts Engineering Construction Limited and its subsidiaries at December 31, 1971, and the consolidated results of their operations, source and application of funds and changes in shareholders' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 11, 1972

ERNST & ERNST
Chartered Accountants



1971 was a year of excellent growth for Cliffside Pipelayers Limited, a wholly-owned subsidiary. Cliffside is one of Ontario's major underground utility contractors providing mains and services for natural gas, underground hydro and telephone conduits and underground fuel distribution systems.

Underground Consumers' Gas services in subdivision.



Installing new Consumers' Gas mains.

Burying Bell Telephone cables.



*Ontario Hydro's
Nanticoke Generating Station*

*Installation of 42" diameter steel pipe for ash
recirculating line.*

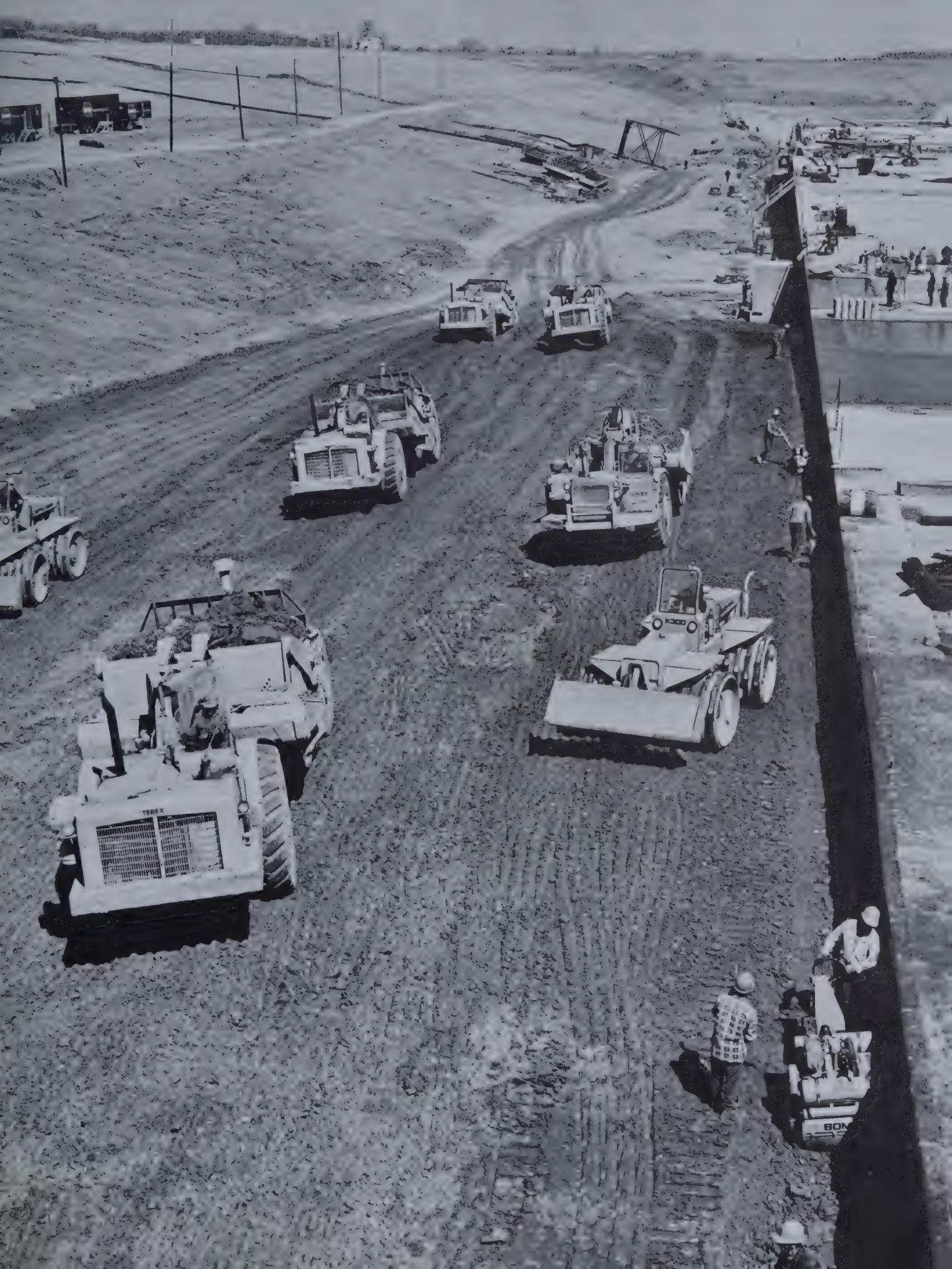


*Townline road and rail tunnel for the St. Lawrence Seaway
Authority's Welland Canal relocation*

This 1,000-foot road and rail tunnel crossing under the new Welland Canal will carry a two lane highway and three railway tracks. Approaches at either end of this tunnel are approximately 2½ miles long. At year-end this \$37,000,000 Pitts-sponsored joint venture, comprising five separate contracts, was approximately 74% complete.

Excavation production during the 1971 season ran 40,000 cubic yards per day on the Townline Tunnel project.







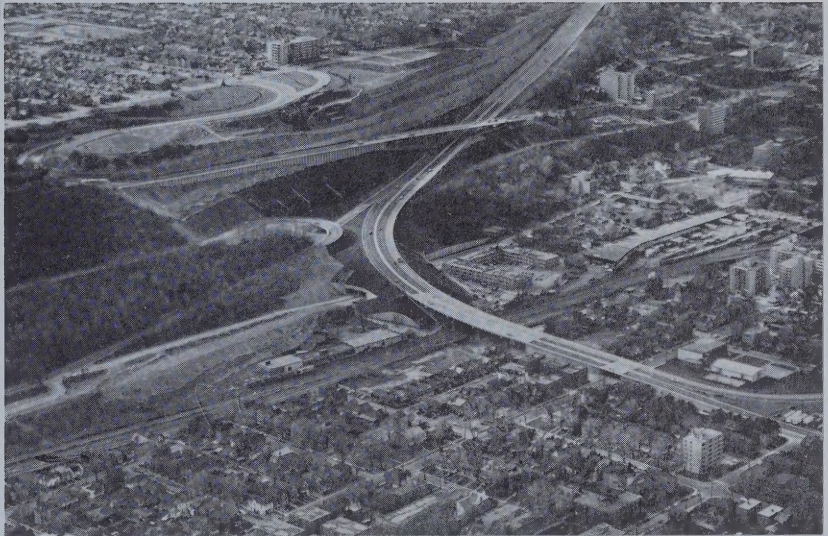
*Manitoba Hydro's development
on the Nelson River*

*This project was constructed
by a joint venture sponsored by
Bovis-McNamara. The first phase
is basically complete with 5
of 8 generators now in operation
and the second phase, calling
for 4 additional units, is now
70% complete.*



***Hamilton, Ontario : Claremont Hill
Mountain Access Road***

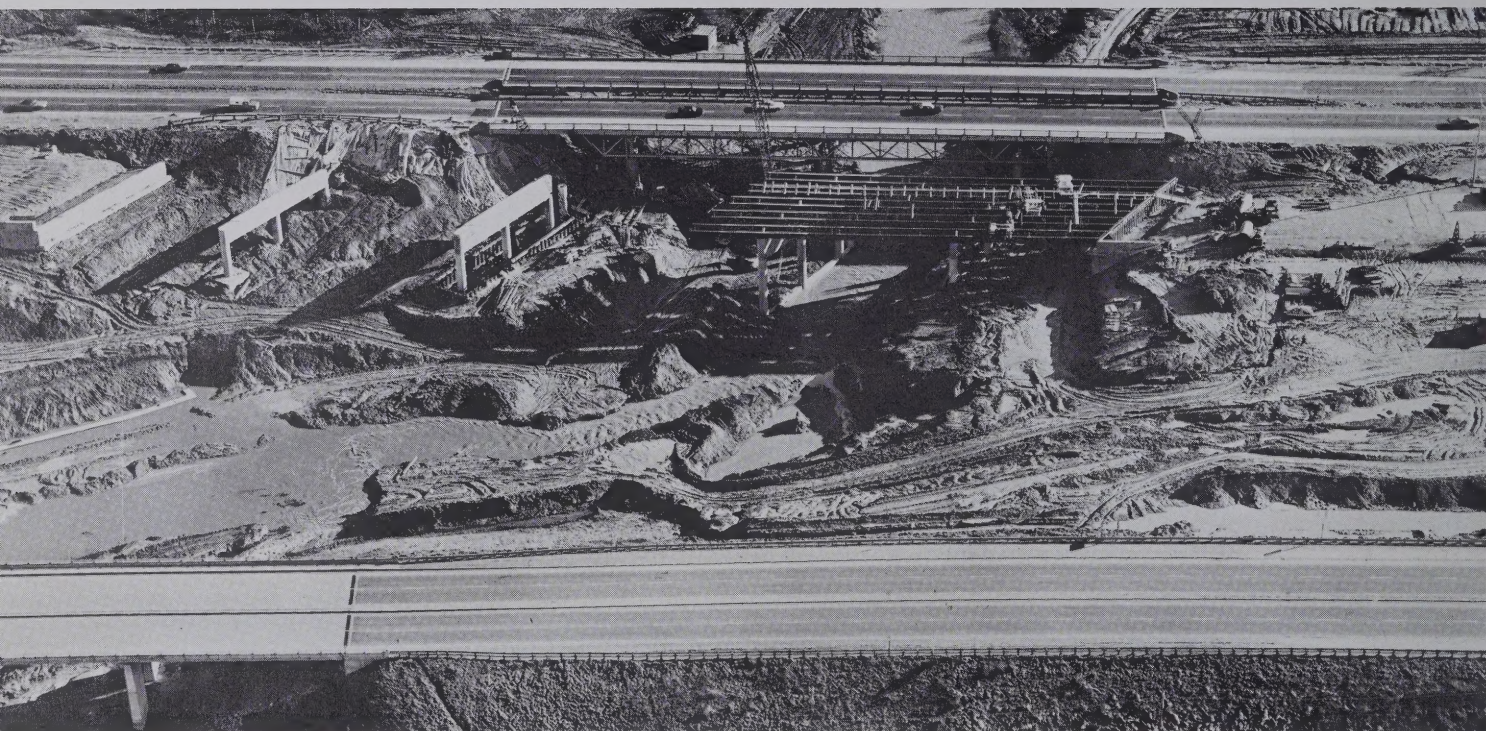
*This \$5,300,000 project, providing
Hamilton with multi-lane access to the
mountain, was completed in a nine-
month period during 1971, ten months
ahead of schedule.*



***The St. Lawrence Seaway Authority's
syphon underneath the Welland Canal
relocation***

*Pitts-Atlas, a joint venture sponsored by
Pitts, completed the relocation of the
Welland River beneath the new
Welland Canal.*



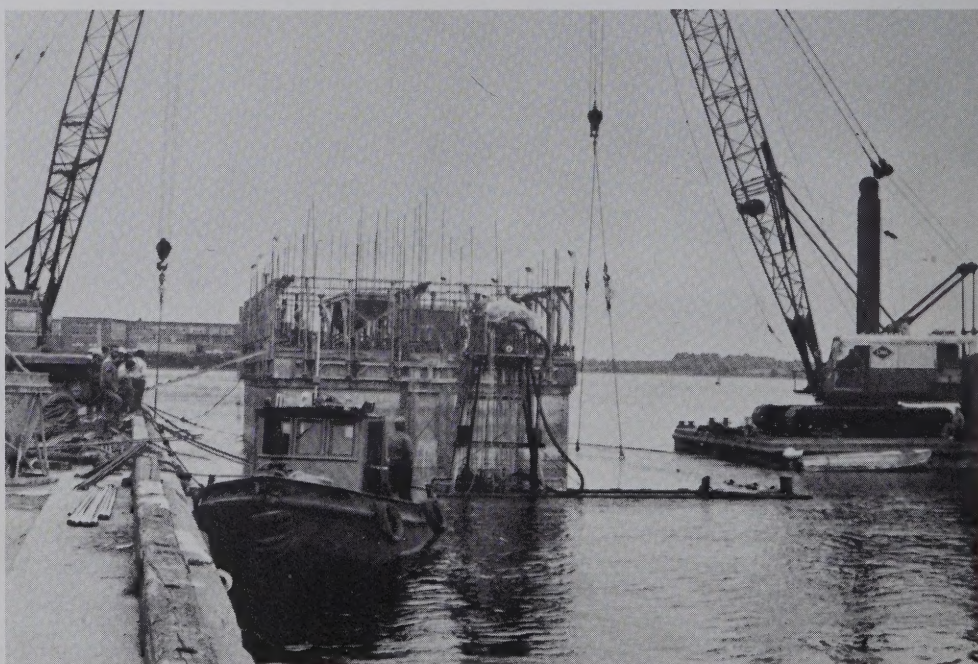


*Macdonald-Cartier
Freeway and Highway 2A
interchange*

*Construction of new bridge
across the Rouge River.*

*Cornwall, Ontario : harbour
improvements*

*Pitts' marine division sinking
a concrete crib for extension
of Cornwall wharf.*





Churchill Falls power development

Installation of eleven generators in the world's largest underground powerhouse. This joint venture, sponsored by Atlas Construction Co Limited, is now complete.

Noise barriers on the Macdonald-Cartier Freeway

Erected for the Department of Transportation and Communications as part of their noise abatement program.



